



General Assembly

Distr.
GENERAL

A/C.2/49/9
15 November 1994

ORIGINAL: ENGLISH

Forty-ninth session
SECOND COMMITTEE
Agenda item 88 (a)

SUSTAINABLE DEVELOPMENT AND INTERNATIONAL ECONOMIC
COOPERATION: TRADE AND DEVELOPMENT

Letter dated 11 November 1994 from the Chargé d'affaires a.i.
of the Permanent Mission of Yugoslavia to the United Nations
addressed to the Secretary-General

I have the honour to transmit, enclosed herewith, the information on the consequences of the sanctions for the economy and foreign trade of the Federal Republic of Yugoslavia.

I should be grateful if you would have the present letter and its annex circulated as an official document of the General Assembly under agenda item 88 (a).

(Signed) Dragomir DJOKIĆ
Ambassador
Chargé d'affaires a.i.



ANNEX

Consequences of the sanctions for the economy and foreign trade
of the Federal Republic of Yugoslavia

The sanctions of the international community imposed on the Federal Republic of Yugoslavia under Security Council resolution 757 (1992) and expanded under resolutions 787 (1992) and 820 (1993) have caused unfathomable consequences in all areas of social life in the Federal Republic of Yugoslavia.

The partial suspension of the sanctions in the field of air and maritime passenger traffic, culture and sports, adopted under Security Council resolution 943 (1994), practically contributes nothing towards the improvement of the general economic situation in the Federal Republic of Yugoslavia and consequently has no beneficial effects on any social service, the development of which hinges directly upon basic economic activities.

Bearing in mind the fact that the European Union, traditionally the Federal Republic of Yugoslavia's major foreign trade partner, introduced restrictive measures towards the Federal Republic of Yugoslavia as early as November 1991, the warranted conclusion is that the Federal Republic of Yugoslavia has been under the sanctions for almost three years now. In this three-year period the social product, as the most significant indicator of the state of the economy, registered a dramatic decline: in 1991 it fell by 11 per cent relative to 1990, in 1992 by 27 per cent and in 1993 by a further 30.3 per cent. In 1994 the social product is estimated to be at its 1993 level. Thus from a developing country, with a social product of US\$ 26.6 billion in 1990 (US\$ 2,850 social product per capita), under the influence of a series of adverse economic factors, notably the unjustified sanctions imposed by the international community, the Federal Republic of Yugoslavia became a low-income developing country with a social product of US\$ 10 billion forecast for 1994 (under US\$ 1,000 per capita social product).

Other economic parameters also indicate the pernicious effects of the sanctions on the Federal Republic of Yugoslavia's economy. Thus the volume of industrial output in 1992 fell by 21 per cent and in 1993 by as much as 37 per cent relative to the preceding year. In this context, the manufacturing branches of the economy were most hit by the sanctions. In 1992, agricultural production fell by 15 per cent, slowing down somewhat in 1993 to decline by 7.2 per cent relative to the year before. In 1994, the summer drought caused severe damage to the late crops, and the future of intensive farming remains uncertain, especially in view of the fact that the Security Council Sanctions Committee established pursuant to resolution 724 (1991) does not permit the import of inputs (fuels, fertilizers, raw materials for fertilizers) necessary for the normal operation of the agricultural sector and food production. Construction activities also recorded a marked decline throughout this period. In 1992 it was 16 per cent and in 1993 a further 25 per cent. The shortage of investment finance is the greatest obstacle to reviving construction activities. The domestic market has constricted and domestic demand for construction works has weakened, and foreign capital projects have dramatically fallen due to the sanctions. Of all the economic branches, transport was the first to come under

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the sanctions. The ban on the transit of goods through the Federal Republic of Yugoslavia resulted in the re-routing of commodity and tourist traffic outside Yugoslavia, which largely contributed to the reduction by 36 per cent of traffic in 1992 relative to 1991, and by 66 per cent in 1993 relative to the preceding year.

The loss incurred in the 1991-1994 period due to the drastic drop in the social product, the unrealized net foreign inflow and the need to provide net earnings to the temporarily unemployed and redundant labour has been estimated in mid-1994 to amount to over US\$ 45 billion. However, the indirect damage sustained on account of the sanctions, reflected primarily in the fall of efficiency and productivity in the economy, the technological lag due to reduced domestic capital formation, the blockade of foreign investment and incentive finance, and the impossibility of transferring technologies and of free circulation of goods, services and capital, is vast and is roughly estimated to exceed US\$ 140 billion.

What certainly deserves mention in this context are the immeasurable losses sustained by our country due to the impossibility of our representatives taking part in the work of a series of international organizations, the absence of scientific, cultural and sports interchange in an international framework, the extensive brain drain, the markedly deteriorated health condition and lower educational and cultural activity levels of the population, the increased mortality and decreased population birth rates.

The devastating consequences of the economic blockade were reflected the most in the drastic hyperinflation, which reached 313 million per cent in January 1994. The hyperinflation was primarily the consequence of the unexpected economic shock caused by the disintegration of the Yugoslav market and the blockade imposed by the international community, such circumstances necessarily resulting in the inflationary financing of payment, pension, welfare and health funds.

At the end of January 1994, the Government of the Federal Republic of Yugoslavia embarked on the implementation of the Programme of Reconstruction of the Monetary System and the Strategy of Economic Recovery of the Federal Republic of Yugoslavia. This programme yielded positive results, reflected, first of all, in the curbing of inflation, the slight increase of production, the reduction of the budget deficit at all levels and the stabilization of the dinar.

It should be borne in mind, however, that the implementation of the programme, in particular of the strategy of economic recovery of the Federal Republic of Yugoslavia, will largely depend on the easing/lifting of the sanctions that the international community has imposed on the Federal Republic of Yugoslavia. If this does not happen soon, however, the objectives of the Programme will be attained much more slowly, i.e. over a longer term, and economic reconstruction and the recovery of the country in general will be called into question, with all the adverse repercussions this entails for the living standard of the population.

In addition to the vast adverse effects in the most sensitive fields, such as health, welfare, education and others, the economic sanctions have hit the Federal Republic of Yugoslavia's foreign trade the hardest. Until the introduction of the Security Council sanctions, the economy of the Federal Republic of Yugoslavia had been highly integrated in the world economic flows, and in view of its openness and comprehensive cooperation links it was considerably dependent on established foreign economic relations. This dependence was pronounced in both trade of commodities and in industrial cooperation - involving various licensing rights, co-production and joint ventures, scientific and technical cooperation, the exchange of services and financial transactions.

The economic blockade meant the loss of the markets of Yugoslavia's major trading partners, both European Union and Organisation for Economic Cooperation and Development countries, as well as Eastern European and developing countries. The consequences of the impossibility of selling Yugoslav export goods for the operation and development of export-oriented sectors were devastating and were also attended by a paralysis of production in Yugoslavia's import-dependent enterprises; this in turn triggered a chain reaction undermining overall economic trends. This situation was initially brought about by the unilateral termination of the Socialist Federal Republic of Yugoslavia - EEC Agreement on Cooperation with its accompanying protocols (financial, trade and textile), with the exclusion of Yugoslavia from the list of beneficiaries of the generalized system of preferences. This was followed by the one-sided suspension of our activities in international organizations (the United Nations, the International Monetary Fund, World Bank, etc.) and the remaining multilateral (General Agreement on Tariffs and Trade, World Trade Organization, World Intellectual Property Organization and other) and bilateral treaties in the area of foreign trade, as well as in other areas of economic and financial cooperation. The lifting of the sanctions in itself will not enable the Federal Republic of Yugoslavia's automatic reintegration in international economic flows, meaning that the direct adverse consequences of the sanctions will continue to be felt even after they are formally lifted.

In 1990, the last relatively stable year for the economy, Yugoslavia exported goods with a total value of US\$ 5,712.5 million and imported goods valued at US\$ 7,264.1 million. In the Federal Republic of Yugoslavia's overall foreign trade, the developed countries of the West accounted for 50 per cent, Eastern European countries for 40 per cent and developing countries for 10 per cent. From June 1992, i.e. November 1991 (when the European Community introduced restrictive measures towards Yugoslavia) to date, this exceptionally important foreign trade has been reduced to the minimum, involving only some imports of humanitarian supplies (food and medication). The unfavourable effects of the sanctions on the basis of the decline of foreign trade as compared to 1990 amount to approximately US\$ 32,439 million. This is the extent of lost foreign trade which could have been realized during the period under the sanctions.

The discontinuation of foreign trade did not mean for the Federal Republic of Yugoslavia the mere deprivation of the Yugoslav market of a certain range of goods but also the blocking and preventing of considerable domestic production facilities from producing for domestic needs due to the shortage of fuels, raw

materials and spare parts for the maintenance of equipment, without which certain lines of production simply cannot function. On the other hand, the impossibility of exporting Yugoslav goods has not only resulted in the temporary or permanent loss of markets in a number of countries and the impoverishment of the Yugoslav economy in terms of lost foreign currency, but has also heavily undermined Yugoslav manufacturing capacity, with all the negative consequences that this will entail for the Yugoslav economy as a whole. A large number of import-dependent and export-oriented enterprises have had to wind up operations, placing their workers on forced leave (1 million workers are on compulsory leave).

The sanctions have most adversely affected the Yugoslav tourist industry. Although they did not apply to individual tourist travel, foreign tourist trade fell to only 5 per cent of what it was in 1990, resulting in the loss of considerable foreign exchange earnings which the Federal Republic of Yugoslavia used to chalk up on this basis. The primary cause of this decline is the severance of transport links with the Federal Republic of Yugoslavia as well as the inability of our tourist agencies to advertise abroad. The biased and untrue propaganda spread by the international mass media about the Federal Republic of Yugoslavia has also lately deterred foreign tourists from coming to our country. All this has led to the discontinuation of initiated tourist industry projects, a decline in the standard of services, the erosion of the industry's infrastructure, the sending of tourist industry workers on compulsory leave, etc. Yugoslavia's membership in the World Tourism Organization was suspended, as were all the bilateral agreements in this field. The discontinuation of cooperation in the field made tourist information inaccessible to the Federal Republic of Yugoslavia and consequently made it impossible to follow the competition and trends in the international market.

From December 1988, when a new, liberal law on joint ventures was adopted in the Socialist Federal Republic of Yugoslavia, until the introduction of the sanctions by the international community, the Republics of Serbia and Montenegro were important recipients of direct foreign investments. Foreign persons were permitted to set up in the Federal Republic of Yugoslavia both mixed companies with Yugoslav partners and their own companies and also freely to conclude joint venture agreements. Until the introduction of the sanctions, foreign investments had been steadily on the rise, so that by April 1991, foreign persons had set up in the territory of Yugoslavia 347 wholly owned enterprises with a capital of DM 142.6 million, and 1,153 mixed companies, with the foreign investment share being DM 938.3 million, and had concluded 228 joint venture contracts, with the foreign share being DM 400 million. However, with the introduction of the sanctions, most of these contracts were frozen and there have not been any new investments since the Federal Republic of Yugoslavia was categorized as a high-risk country, which is considered unattractive for the investment of foreign capital. The economic blockade has also deprived the Federal Republic of Yugoslavia of new technologies, equipment, know-how and experience, which accounted for a significant portion of joint ventures. A large number of jointly initiated investment ventures have been terminated, causing enormous damage and losses not only to the Yugoslav economy but to the foreign partners in question.

It is obvious from the circumstances described that the unjustly imposed sanctions have had unfathomable consequences for the Federal Republic of Yugoslavia's overall foreign trade relations. Unless the sanctions are lifted in the very near future and the Federal Republic of Yugoslavia is reintegrated in international commodity and monetary flows, the Yugoslav economy and people will sustain irreparable damage. At the same time, such a situation would be reflected in the neighbouring economies as well, and indeed in the entire region of the Balkans, given the geopolitical position and economic importance of the Federal Republic of Yugoslavia in this part of the world.
